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54 th ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

1965

BEATTY BROS. LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

BEATTY BROS. LIMITED

(Incorporated under the laws of Canada)

and Subsidiary Companies

YEAR ENDED DECEMBER 31, 1965

FACTS IN BRIEF

	1965	1964
Net sales	$49,778,292	$50,067,658
Net profit for year	118,289	443,183
Increase (decrease) in earned surplus for year	32,047	(3,913)
Bank loan and short term notes (less cash)	5,394,342	6,087,544
Total current assets	19,301,579	20,987,067
Total current liabilities	11,447,859	13,214,191
Ratio — current assets to current liabilities	1.7 to 1	1.6 to 1
Working capital	7,853,720	7,772,876

STATEMENT OF FINANCIAL ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 1965

FACTORS WHICH PROVIDED CASH:			
Operations —			
Net profit for the year		$ 118,289	
Add items included therein which did not require an outlay of cash:			
Depreciation		696,708	
Amortization of licence and tooling		100,000	
Interest of minority shareholders in profits of subsidiaries		9,085	$ 924,082
Reduction of assets —			
Inventories		$1,288,233	
Accounts receivable		212,762	
Income taxes recoverable		68,114	
Prepaid expenses		46,220	1,615,329
			$2,539,411
FACTORS WHICH REQUIRED CASH:			
Reduction of accounts payable and other liabilities		$ 758,476	
Fixed asset additions (net)		486,197	
Redemption of preferred shares of subsidiaries	$ 136,400		
Reduction of funded debt of subsidiaries	364,500	500,900	
Conversion of Class "A" shares and redemption of preferred shares		100,636	1,846,209
DECREASE IN BANK LOAN AND SHORT TERM NOTES (NET)			$ 693,202

REPORT OF THE BOARD OF DIRECTORS

To the Shareholders:

Sales declined from $50,067,658 in 1964 to $49,778,292 in 1965. This was primarily due to a decrease in sales in our Beatty and industrial contract divisions.

In 1965 Beatty division phased out products which it distributed but did not manufacture. The resultant decrease in sales offset the increases obtained in sales of manufactured products.

Sales in our industrial contract division fell sharply reflecting your company's decision to terminate its automotive contract business, following the Canada-U.S. Automotive Agreement which became effective in 1965. While your directors agree that this pact will bring more employment to Canada and assist in reducing this country's trade deficit, they also felt that the company should not commit additional assets to the automotive contract business. In the long run it will be healthier for the company to make substantial investments in capital equipment, tooling and engineering for its proprietary line of products.

Profits for 1965 amounted to $118,289 compared to a profit of $443,183 in 1964. This reflects the influence of the decrease in sales outlined above and the effect of strikes which closed the Beatty division plant for three weeks.

As you will recall, the 1964 profits were after providing for non-recurring moving expenses of $427,831. These moves which affected our housewares and appliance divisions, contributed to improved operating results for both divisions. Sales in these divisions increased. Profits increased substantially in housewares and to a lesser extent in appliances, despite much heavier expenditures on tooling and engineering in the latter division.

At the end of 1965 we purchased Quality Farm Equipment Ltd. of Aurora, Ontario, manufacturers of forage wagons, harrows and bale bunchers. These products will be distributed by the Beatty division, and fit in well with our existing line.

Operations in the United Kingdom resulted in a loss for the year. Sales decreased, and import taxes imposed at the end of 1964 reduced our gross profits. A new plant at Hatfield began manufacturing warm air furnaces at the end of 1965. Costs incurred in setting up the plant have been written off in 1965.

Tooling and Engineering:

Expenditures on tooling and engineering increased $450,000 over 1964, and, as is our practice, all such expenditures have been charged against earnings in 1965. A further increase is planned in 1966 in order to improve our products in growing markets.

Capital Expenditures:

Spending for new equipment amounted to $500,000 in 1965. It is planned to spend more in 1966. Appliance operations at our London, Ontario, plant are being expanded with the acquisition, early in 1966, of 8 acres of land and a 60,000 square foot building adjacent to our plant. $250,000 will be spent for new equipment in our Montreal plant.

Financial:

Working capital increased from $7,773,000 to $7,854,000. Inventories were reduced by $1,288,000 and receivables by $213,000. Bank and note borrowings, as at December 31st, decreased by $763,000, from $6,189,000 to $5,426,000. However, due to larger borrowings throughout the year, and increased rates of interest, interest charges rose from $385,000 to $569,000.

Personnel:

Management of your company's divisions has been improved through many promotions from within the company, and senior management in some divisions has been strengthened by bringing in able people from outside our company.

During 1965, James H. McIlroy retired as a Vice-President and Director of Sales for the Housewares Division, after 47 years of distinguished service to your company.

General:

Despite the improved results in the appliance and housewares divisions, these were more than offset by losses in the Beatty division and in General Steel Wares (U.K.) Ltd.

While your directors are disappointed with 1965's net profit, nevertheless, they believe that the measures taken to strengthen your company and the efforts that have been expended by the people in all divisions during the past year have improved your company's competitive position. These efforts are continuing throughout the company and your directors look forward in the forthcoming year to further important progress in the appliance and housewares divisions and to a reversal of the results in the areas where losses were encountered.

Your directors would especially like to express their appreciation for the past and continuing loyalty and efforts of all those associated with your company.

Fergus, Ontario,
March 11, 1966.

On behalf of the Board

President

BEATTY BROS. LIMITED

(Incorporated under the laws of Canada)

and Subsidiary Companies

YEAR ENDED DECEMBER 31, 1965

BALANCE SHEET DECEMBER 31, 1965

(with comparative figures for 1964)

ASSETS

	1965	1964
CURRENT ASSETS:		
Cash	$ 31,828	$ 101,987
Accounts receivable less allowance for doubtful accounts	5,642,363	5,855,125
Income taxes recoverable	19,187	87,301
Inventories valued at the lower of cost and market	12,593,392	13,881,625
Prepaid expenses and manufacturing supplies	364,809	411,029
Mortgage receivable, since paid	650,000	650,000
Total current assets	$19,301,579	$20,987,067
FIXED ASSETS:		
Land, buildings and equipment, at cost	$16,238,206	$15,771,516
Less accumulated depreciation	11,818,008	11,146,200
	$ 4,420,198	$ 4,625,316
OTHER ASSETS:		
Excess of cost of common shares of subsidiary companies over book value thereof at dates of acquisition — General Steel Wares Limited	$ 428,815	$ 428,815
The Easy Washing Machine Company, Limited (on its acquisition by General Steel Wares Limited)	507,090	507,079
	$ 935,905	$ 935,894
Licence and tooling in connection with a new business acquired, less amortization	316,000	416,000
Engineering, tooling and patent costs, less amounts written off	1	1
	$ 1,251,906	$ 1,351,895
	$24,973,683	$26,964,278

On behalf of the Board:

R. M. BARFORD, Director.

R. A. STEVENS, Director.

LIABILITIES

	1965	1964
CURRENT LIABILITIES:		
Bank loan	$ 426,170	$ 1,389,531
Short term notes	5,000,000	4,800,000
	$ 5,426,170	$ 6,189,531
Accounts payable	4,758,130	5,330,839
Income and other taxes payable	429,235	607,893
Dividends payable	43,282	44,987
Provision for warranties	600,000	600,000
Sinking fund instalments of funded debt due within one year	119,000	237,500
Sinking fund for preferred share redemption	72,042	203,441
Total current liabilities	$11,447,859	$13,214,191
FUNDED DEBT OF SUBSIDIARY COMPANIES (see note 2)	3,711,000	3,957,000
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS	180,500	180,500
RESERVE FOR FUTURE TOOLING COSTS	250,000	250,000
MINORITY INTEREST IN GENERAL STEEL WARES LIMITED AND ITS SUBSIDIARIES:		
5% cumulative redeemable preferred shares (redemption price $3,635,730)	$ 3,462,600	$ 3,599,000
Less sinking fund for preferred share redemption	72,042	203,441
	$ 3,390,558	$ 3,395,559
Common shareholders' interest in capital and surplus	1,910,296	1,901,211
	$ 5,300,854	$ 5,296,770
	$20,890,213	$22,898,461
SHAREHOLDERS' EQUITY:		
Capital (see note 3) —		
Issued and outstanding:		
84 5% cumulative redeemable preferred shares, par value $12.00 each		1,008
7,896 Class "A" shares without par value convertible into preferred shares		13,386
417,000 common shares without par value	737,500	737,500
	$ 737,500	$ 751,894
Earned surplus	3,345,970	3,313,923
Total shareholders' equity	$ 4,083,470	$ 4,065,817
	$24,973,683	$26,964,278

PROFIT AND LOSS YEAR ENDED DECEMBER 31, 1965

(with comparative figures for 1964)

	1965	1964
Net sales	$49,778,292	$50,067,658
Less cost of sales, selling and administrative expenses before providing for the undernoted items	48,159,255	47,734,159
	$ 1,619,037	$ 2,333,499
Interest on funded debt	169,218	181,841
Interest on other loans	399,661	202,822
Depreciation	696,708	678,034
Amortization of licence and tooling in connection with a new business acquired	100,000	84,000
	$ 1,365,587	$ 1,146,697
Profit before income taxes	$ 253,450	$ 1,186,802
Income taxes (recoverable) (note 4)	(46,224)	88,500
	$ 299,674	$ 1,098,302
Gain on fixed asset disposals		64,672
Profit (net) on purchase of preferred and preference shares of subsidiaries	5,000	887
Profit for the year before non-recurring expense	$ 304,674	$ 1,163,861
Direct plant relocation costs		427,831
Net profit before minority interest in profits of subsidiaries	$ 304,674	$ 736,030
Less:		
Dividends paid on preferred shares of subsidiary	177,300	179,981
Interest of minority shareholders in profits of subsidiaries	9,085	112,866
	$ 186,385	$ 292,847
NET PROFIT FOR THE YEAR	$ 118,289	$ 443,183

EARNED SURPLUS YEAR ENDED DECEMBER 31, 1965

(with comparative figures for 1964)

	1965	1964
Balance, beginning of year	$ 3,313,923	$ 3,317,836
Add net profit for the year	118,289	443,183
	$ 3,432,212	$ 3,761,019
Deduct:		
Income tax and other costs in connection with sale of assets to General Steel Wares Limited as of January 2, 1964		81,889
Appropriation of surplus on conversion and redemption of shares (note 3)	$ 86,242	365,207
	$ 86,242	$ 447,096
BALANCE, END OF YEAR	$ 3,345,970	$ 3,313,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1965

1. Subsidiary companies consolidated:

   The consolidated financial statements reflect a consolidation of Beatty Bros. Limited and its partially owned subsidiaries, General Steel Wares Limited and The Easy Washing Machine Company, Limited, and several other small subsidiaries.

2. Funded debt:

   Details of this debt are as follows:

	Outstanding	*Sinking fund instalment due within one year*	*Net*
General Steel Wares Limited — First Mortgage Bonds:			
Series "A" — 3½%, due May 1, 1970	$1,968,000		$1,968,000
Series "B" — 5%, due April 15, 1973	1,555,000	$ 82,000	1,473,000
	$3,523,000	$ 82,000	$3,441,000
The Easy Washing Machine Company, Limited — Sinking Fund Debentures:			
Series "A" — 5¾%, due June 30, 1969	307,000	37,000	270,000
	$3,830,000	$119,000	$3,711,000

   The total amount of General Steel Wares bonds authorized was $8,000,000. Of these, $1,500,000 have not been issued. The total amount of Easy Washing Machine Company, Limited debentures authorized was $1,500,000, of which $750,000 have not been issued.

3. Capital:

   The capital of the company is as follows:

   5% cumulative redeemable preferred shares par value $12.00 each.

   Authorized: 97,962 shares (after deducting 319,038 shares which have been redeemed)
   Issued and outstanding: nil

   Common shares without par value
   Authorized: 600,000 shares
   Issued and outstanding: 417,000 shares $737,500

   During 1965, the company converted all outstanding Class "A" shares to preferred shares and then redeemed all outstanding preferred shares.

   The appropriation of earned surplus on these transactions was as follows:

On conversion of 7,896 Class "A" shares into preferred shares —		
Par value ($12.00 per share) of 7,896 preferred shares into which the Class "A" shares were converted	$ 94,752	
Share of profits to December 31, 1964 applicable to the Class "A" shares converted (0.35 per share)	2,764	
Dividend of 0.25 accrued on Class "A" shares to date of conversion	1,760	
	$ 99,276	
Less value at which the Class "A" shares were carried in the capital account (approximately $1.77 per share)	13,386	$ 85,890
On redemption of preferred shares — Dividend paid of 0.05 per share		352
		$ 86,242

4. Income taxes:

   No provision for income taxes is required in 1965 as a result of the carry-forward of prior years' losses incurred by subsidiaries.

   The income tax recoverable of $46,224 results from the carry-back to 1964 of losses incurred in 1965 by one of the subsidiaries.

5. Fees and salaries:

   Directors' fees and remuneration of salaried directors amounted to $127,000 for 1965.

AUDITORS' REPORT

To the Shareholders of
Beatty Bros. Limited:

We have examined the consolidated balance sheet of Beatty Bros. Limited and its subsidiary companies as at December 31, 1965 and the consolidated statements of profit and loss and earned surplus and financial activities for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus and financial activities present fairly the financial position of the company as at December 31, 1965, the results of its operations and the sources and application of cash for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 23, 1966.

Clarkson, Gordon & Co.
Chartered Accountants

THE DIVISIONS OF THE COMPANY AND
THE PRODUCTS THEY MARKET

Beatty

Beatty

BOARD OF DIRECTORS

R. M. Barford	G. R. Gardiner
R. A. Stevens	Miss M. P. Hyndman, Q.C.
A. A. P. Menzies	G. E. Robertson
W. F. Pearson	G. Rodanz

R. Pigeon

OFFICERS

G. R. Gardiner	Chairman
R. M. Barford	President and Treasurer
R. A. Stevens	Executive Vice-President
A. A. P. Menzies	Vice-President
Miss M. P. Hyndman, Q.C.	Secretary

TRANSFER AGENT and REGISTRAR
The Canada Trust Company

BANKERS — The Bank of Nova Scotia

AUDITORS — Clarkson, Gordon & Co.

BEATTY BROS. LIMITED
Head Office - Fergus, Ontario
Established 1874

THE DIVISIONS OF THE COMPANY AND THE PRODUCTS THEY MARKET

APPLIANCE DIVISION

AIR CONDITIONING AND COIN LAUNDRY DIVISION
McClary-Easy/Fedders window and central air conditioning • McClary-Easy coin and push button laundry equipment for apartments and coin laundries.

ARCHITECTURAL DIVISION
Metal lockers • Fire doors • Hollow metal doors and frames • Toilet and shower partitions for commercial applications.

BEATTY APPLIANCE COMPANY
Beatty electric ranges • Refrigerators • Upright and chest freezers • Automatic washers and dryers • Wringer washers • Automatic ironers.

BELWOOD APPLIANCE COMPANY
Ultra low temperature freezers for industrial and commercial applications • Chest and upright freezers for food plan distributors.

CONTRACT DIVISION
Private label appliances.

EXPORT DIVISION
All products of the company.

GENERAL STEEL WARES (U.K.) LTD.
Warm air heating • Coin laundry equipment • Major appliances.

McCLARY-EASY DIVISION
McClary-Easy electric ranges • Refrigerators • Upright and chest freezers • Wringer washers • Automatic washers and dryers • Floor polishers.

SERVICE DIVISION
Replacement parts and field service.

BEATTY BROS. DIVISION

FARM LINES DIVISION
Forage wagons • Manure spreaders • Harrows • Bale bunchers • Silo unloaders • Gutter cleaners • Mechanical feeding equipment • Steel pens and stalls.

GATOR TRAILER DIVISION
Boat and snowmobile trailers.

McDOUGALL PUMP DIVISION
Direct-drive shallow and deep well piston pumps • Jet pumps • Submersible pumps • Cistern pumps • Sump pumps • Water conditioners.

PUMP AND HARDWARE DIVISION
Direct-drive shallow and deep well piston pumps • Jet pumps • Submersible pumps • Cistern pumps • Sump pumps • Water conditioners.

HOUSEWARES DIVISION

Stainless steel and aluminum cooking utensils • Lithographed pantry ware and a wide range of metal household and related products • Range boilers • Water heaters • Shower cabinets.

INDUSTRIAL PRODUCTS DIVISION

Many products are made to specification for Canadian manufacturers such as: Porcelain enamelled tubs and wringers for the laundry industry • Transformer tanks • Concrete roofing forms • Special lithographed items such as buffet trays.